

Joint Legislative Audit Committee

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California Legislature



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Letter Report 720

September 19, 1977

Honorable John J. Miller
California State Assembly
State Capitol, Room 4112
Sacramento, CA 95814

Dear Assemblyman Miller:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's letter report on the Berkeley Unified School District.

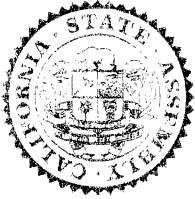
The auditors are Robert M. Neves, Audit Manager; and Linda L. Huffman.

Cordially

MIKE CULLEN
Chairman

cc: Speaker of the Assembly
President pro Tempore of the Senate
Members of the Joint Legislative
Audit Committee

Assemblyman Tom Bates
California State Assembly
State Capitol, Room 2167



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September 16, 1977

Letter Report 720

Honorable Mike Cullen
Chairman, and Members of the
Joint Legislative Audit Committee
Room 5144, State Capitol
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a resolution of the Joint Legislative Audit Committee we have conducted a review of the Berkeley Unified School District (BUSD) to determine what actions are being taken to resolve its fiscal and administrative problems. This review was conducted under authority vested in the Auditor General by the Government Code. The scope of our review included analyses of prior reports and interviews with school administrators, school board officials, State Department of Education staff, legislative staff, employees of public accounting firms and citizens who had reviewed BUSD's operations.

We conclude that BUSD is making satisfactory progress in resolving its operational and fiscal problems.

Efforts to Improve Operations

BUSD has had numerous operational and financial problems over the past five years. The 1974-75 budget was overspent by approximately \$720,000. Inadequate management and financial controls have been reported. Since 1975, two BUSD business managers have resigned and the teachers have gone on strike.

While these events were occurring, BUSD employed outside audit and management review firms to study the District's management and financial operations. Eight reports have been completed in the past three years, costing the District approximately \$150,000. In addition, approximately \$21,000 was paid to a consulting firm to provide an acting business manager.

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Three additional reports were provided to BUSD at no cost to the District. They were: (1) State Department of Education's School District Management Review Berkeley Unified School District (April, 1974), (2) Citizens Fiscal Analysis and Review Committee (Patridge Committee - July, 1975), and (3) Grand Jury Final Report, Alameda County 1976-77.

The 11 reports analyzed procedures for purchasing, warehousing, staffing, business office operations, data processing, project evaluations and objectives for top management. They recommended improvements in each of these areas. A listing of these reports and their cost is provided in Appendix A.

The Grand Jury Final Report for Alameda County 1976-77 recommended four improvements for BUSD's operations. These recommendations included: (1) promptly hire an experienced business manager, (2) establish a timetable for prompt collection of grant funds, (3) combine the business and administration offices of BUSD at one location, and (4) restructure the school board meeting agenda to permit completion of its business.

BUSD has taken the following action on the above recommendations:

- (1) The business manager was hired effective September 7, 1977.
- (2) The federal grant program at BUSD is currently being restructured. In the past, the District did not have a system for monitoring the numerous grant projects, nor were they able to obtain adequate information on the status of the budgets. This year BUSD instituted a system for monitoring the various federal projects. The new system monitors whether the objectives set forth in the grant proposals are being met and whether district policies are being followed.
- (3) The consolidation of the business and administrative offices was recommended by the superintendent of BUSD in his "Report of Financial Information and Budgetary Recommendations for the 1977-78 School Year", issued November 30, 1976. In that report the superintendent also recommended closing three K-3 schools and one 4-6 school. When this report was presented to the school board a citizens' committee was appointed to determine which schools would be closed. Additionally, this committee was given the task of evaluating the consolidation of the business and administrative offices. Their report is due in November, 1977.

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- (4) According to the president of the Berkeley School Board, the board currently meets an average of twice a week. Meetings generally begin at 6:00 p.m., and 25-30 percent of the time the meetings last past midnight. Some meetings have had an attendance of over 2,000 people. The president of the school board contends that they permit citizen participation and business discussions in as timely a fashion as demands will allow.

The Elmer Fox & Company consulting firm was instrumental in implementing improvements in purchasing, warehousing and business office operations. Representatives of that firm worked with the appropriate BUSD staff to institute changes.

Ninety percent of the purchasing recommendations have been implemented. New procedures included establishing a purchasing calendar for ordering and delivering materials. This replaced a system which had lax purchasing procedures. A petty cash fund which is used for small emergency purchases was established at each school site.

Based on the recommendations, a procedures manual was developed for the accounting office. At this time not all the procedures outlined in this manual are operative. The District plans to work with the new business manager to establish priorities for implementation.

As a result of Arthur Young and Company's audit recommendations on staff positions, the BUSD administrative staff analyzed the usefulness of existing positions and reorganized administrative responsibilities when staff vacancies occurred. The problem of overstaffing was also identified in the State Department of Education's report on BUSD. The problem was alleviated by a policy of "hiring from within", adopted by the school board. New hirings are limited to correlate with the normal attrition rate within the District.

These are a few examples of BUSD's efforts to implement the various recommendations. BUSD is conscious of their past problems as well as their present efforts to institute new procedures. Our survey showed that BUSD is earnest in their efforts to operate efficiently. The newly instituted procedures and future plans are indications of BUSD's commitment to better management.

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BUSD has developed a plan to complete implementation of the new procedures as shown in Appendix B. However, the administration of BUSD and the Berkeley School Board have indicated that implementation may take up to two years. We believe that such an extended period would not be timely in light of the need for immediate corrective action, and that the timetable shown in Appendix B should be adhered to. Otherwise, an implementation plan having such flexibility would require close monitoring by an independent body such as the Berkeley School Board.

Consulting Work by Tenured Teacher

A tenured teacher, while serving as BUSD's representative to the Bay Area Learning Center and subsequently as director of a study project, was simultaneously providing consulting services to other school districts. The following actions have been taken:

- Her services as director of the study project were terminated on August 15, 1977.
- A regular classroom or substitute teaching position has been offered to her.

Federal Grants

The Project and Evaluation Office is responsible for the federal grants and projects received by BUSD. The director of the office advises that approximately \$7,000 of district funds is used for the operation of this office and the cost of writing proposals. This figure does not include the salaries of the project director and his secretary, which total approximately \$37,000.

Two types of proposals are submitted to the Federal Government for approval. One type of proposal is districtwide in scope and one is based on individual ideas from teachers. The former is approved approximately 80 percent of the time, while the latter is approved 20 percent of the time.

The District submits claims to the Federal Government for costs incurred in running the various projects. The Federal Government has taken issue with certain costs, saying they are not grant-related. According to BUSD they have been successful in documenting the costs incurred and their relationship to the projects. While many questions have been raised by the Federal Government, there has been no disallowance of grant costs.

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The director of the project office has acknowledged that the accounting system does not provide adequate information on the financial status of the various federal grants. He indicated that when the federal auditors review the grants, the necessary information and documentation is there, however, it takes a while to compile the data due to the difficulties encountered in locating supporting information. Recommendations have been made by Price Waterhouse & Co. to improve the accounting system.

Seniority System

In 1976, due to budgetary constraints, a number of employees were laid off. The District is required by state law^{1/} to dismiss employees in accordance with a seniority system. The state law does not consider minority rights in establishing lay-off procedures. At one time the district school board considered challenging the seniority system by initiating a legal action. Consideration was also given to setting aside funds for such an endeavor. After consulting legal advisors, the board decided not to pursue such action as the state law would probably be upheld.

The specific incident which brought the issue of minority rights vs. the seniority system to the surface involved a black counselor employed by BUSD to meet the needs of the black student population in the District. The prospective employee was hired even though he was not the first on the qualifying list. This hiring was protested by district employees. To alleviate a possible costly lawsuit, in which the District might not prevail, the school board rehired the individual as an administrator. The union representing the district employees took the issue to court claiming that seniority rights had been violated. The judge dismissed the case on the grounds that the individuals whose rights were violated, not the representing union, must bring the action against the District. Currently, the union is encouraging the individuals who fall into this category to institute legal action against the board.

Special Education

Legislative staff have asked us to provide information on BUSD procedures involving classification of students, use of physical education facilities, classroom availability, denial of Education Code Section 56030 funds, use of county services and compliance with Public Law No. 94-142. The following information is provided:

^{1/} Senate Bill 274 of 1978 establishes new lay-off procedures which allow district needs to be considered.

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- The district psychologist evaluates the student for classification as a handicapped student and placement. The psychologist's report is submitted to an evaluation committee which determines whether the student will be admitted to the program.
- The administrator of the special education program at BUSD stated that the physical education facilities at Berkeley High School are available to special education program students. Their physical education activities are revised to meet their functioning level. BUSD is also purchasing more special physical education equipment for these students to use.
- Classroom facilities for the special education program are provided both within existing schools and in separate buildings. The program administrator said that the classrooms are equipped with the essential supplies and some special teaching equipment.
- The Education Code provides that special education students can go to other school districts if their own district does not offer the necessary program. The point of contention occurs when parents question the adequacy or appropriateness of the programs offered within the district. If the program is offered in the district, the student must try it. If the parents believe the program is inadequate for their child's needs, then they must provide documentation to the district to support their contention. The district evaluates each individual case and then decides if the student should be transferred to another district. In the past year BUSD has denied four requests for district transfers. All four cases were appealed and the district decisions were reversed.
- The county provides specific programs for educationally handicapped students. If a district chooses to utilize the county programs, all students who qualify for the programs must participate. BUSD's administrator of the special education program stated that the District has developed a curriculum which includes the services offered by the county. For this reason, BUSD does not use county services.

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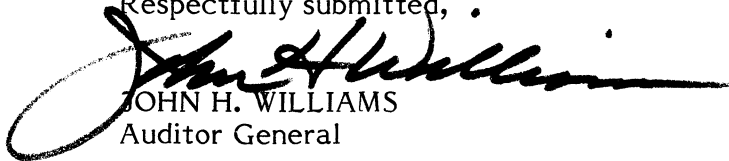
- Public Law No. 94-142 amended the Education of All Handicapped Act of 1975 to be more specific. It provides that by 1980 all school districts must provide free public education in the least restrictive environment to educationally handicapped students 3-21 years of age. BUSD has begun an effort to identify eligibles and to serve the students who fall into the following categories:
 1. Handicapped children who are not in the special education program.
 2. Children who are in the school setting but are not identified as handicapped.
 3. Children who receive special education services but are not being adequately served.

During the school year ending 1977, BUSD identified children 3-5 years old who fall into the above categories. By school year 1978, BUSD hopes to be serving all these youngsters, and by school year 1980 the District expects to have identified and be serving all students 3-21 years of age.

Teacher-Salary Expenditures

Section 41372 of the Education Code requires that at least 55 percent of the total current expenses for education must be for salaries of classroom teachers. The total current expense does not include costs for pupil transportation, fixed charges for food service personnel or lease payments for plant and equipment. According to the June 30, 1976 Price Waterhouse & Co. report, expenditures for salaries of classroom teachers for the year ended June 30, 1976 amounted to 50 percent of such total current expenses as a result of grant expenditures incurred by the District. An application for exemption (J-111) was filed with the Superintendent of Public Education and the exemption has been granted.

Respectfully submitted,



JOHN H. WILLIAMS
Auditor General

Staff: Robert M. Neves, Audit Manager
Linda L. Huffman

Attachments: Response to the Auditor General's Report
Appendix A--Audit and Management Review Reports
Appendix B--The Superintendent's Timetable For Improving
the Operations of the Business Service Division During
the 1977-78 School Year

BERKELEY UNIFIED SCHOOL DISTRICT
1414 Walnut Street, Berkeley, CA 94709

SUPERINTENDENT
Laval S. Wilson

BOARD OF EDUCATION
James Guthrie, President
Mary Jane Johnson, Vice President
Melinda Robinson, Director
Louise Stoll, Director
Carroll Williams, Director
Matthew Lena, Student Director

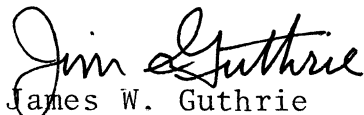
September 15, 1977

Mr. John H. Williams
Auditor General
925 "L" Street, Suite 750
Sacramento, CA 95814

Dear Mr. Williams:

The Board of Directors and administration have read the draft report presented to us on September 13 pertaining to the Berkeley Unified School District and concur, generally, with the facts and conclusions it contains.

Sincerely yours,



James W. Guthrie
President
Board of Education

JWG/qg

Select Committees:

Collective Bargaining
Louise Stoll, Chairperson

Fiscal Affairs
Carroll Williams, Chairperson

External Relations
Mary Jane Johnson, Chairperson

Instruction
Melinda Robinson, Chairperson

AUDIT AND MANAGEMENT REVIEW REPORTS

\$ 50,000	1.	<u>Proposal to Berkeley Unified School District to Provide Assistance in Implementing the School Management Review Report of April 1974</u> Elmer Fox and Company, September 20, 1974
\$ 12,805	2.	<u>Recommended Actions to Improve Purchasing and Warehouse Operations</u> Elmer Fox and Company, January 1975
\$ 8,046	3.	<u>Recommend Approach to Meeting EDP Requirements</u> Elmer Fox and Company, February 1975
\$ 18,000	4.	<u>Financial Statements and Supplementary Information</u> Price Waterhouse & Co., June 1975
\$ 14,000	5.	<u>Report on Extended Audit Tests of Payroll and Cash Disbursements</u> Price Waterhouse & Co., February 1976
\$ 21,780	6.	<u>Report on District's Organization and Management Controls</u> Arthur Young and Company, February 1976
	7.	<u>Recommend Responsibility Assignments for Key Positions</u> Arthur Young and Company, December 1976
\$ 25,000	8.	<u>Financial Statements and Supplementary Information</u> Price Waterhouse & Co., June 1976
<u>\$ 21,400</u>	-	Consulting services cost of Elmer Fox and Company for the period May 1, 1977 to August 31, 1977
<u>\$171,031</u>		
	9.	<u>School District Management Review Berkeley Unified School District</u> State Department of Education, April 1974
	10.	<u>Citizens Fiscal Analysis and Review Committee (Partridge Committee)</u> , July 1975
	11.	<u>Grand Jury Final Report Alameda County, 1976-77</u>

THE SUPERINTENDENT'S TIMETABLE FOR IMPROVING THE OPERATIONS OF THE BUSINESS SERVICE DIVISION DURING THE 1977-78 SCHOOL YEAR

	1977			1978												
	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
1. Identification of problem associated with philosophy and skill of former Business Manager	- X															
2. Resignation of former Business Manager				X												
3. Selection of Arthur Young to search for and screen applications for Business Manager			X													
4. Select new Business Manager						X										
5. Superintendent and new Business Manager hold extensive review sessions together to identify, plan and establish timetable for improving operation of Business Services Division						X										
6. Superintendent, new Business Mgr. and Cabinet hold mini retreat to review business needs of district to review problem areas, to review timetables, and to establish priorities of Business Services Division.						X										
7. New Business Manager in BUSD																X
8. Identification & selection of Special Administrative Assistant to work with Business Manager in improving the operation of the Business Services Division.																X

THE SUPERINTENDENT'S TIMETABLE FOR IMPROVING THE OPERATIONS OF THE BUSINESS SERVICE DIVISION DURING THE 1977-78 SCHOOL YEAR

	1978																
	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	
9. Selection of firm to provide technical assistance to Business Manager if needed- Elmer Fox or Arthur Young							X										
10. Business Manager to meet with various BUSD Division Heads							X										
11. Finalization of 1st Year Plan for improving Business Services							X										
12. Dissemination of 1st Year Plan and Timetable to Budget administrator and Board							X										
13. Implementation of 1st Year Plan									X				X				X
14. Development by Business Manager of multi-year plan for improving Business Services Division										X							
15. Submit to Superintendent Multi-Year Plan for Improving Business Services Division																	X
16. Present to Board Multi-Year Plan for improving Business Services Division																	X

Source: Dr. Laval S. Wilson, Superintendent of Berkeley Unified School District